

Message Text

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ACTION AID-05

INFO OCT-01 AF-06 EUR-12 ISO-00 IO-10 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 EB-07 FRB-01 H-01 INR-07

INT-05 L-02 LAB-04 NSAE-00 NSC-05 PA-01 RSC-01

CIEP-01 SS-15 STR-01 TAR-01 TRSE-00 USIA-06 PRS-01

SP-02 FEAE-00 OMB-01 XMB-02 /104 W

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R 061530Z JAN 75

FM AMEMBASSY MONROVIA

TO SECSTATE WASHDC 4278

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 MONROVIA 0075

E.O. 11652: N/A

TAGS: EAID, ECON, EFIN, ETRD, LI

SUBJECT: ECONOMIC CRISIS: REVIEW OF LDC BALANCE OF PAYMENTS
SITUATION

1. REF A INSTRUCTED POSTS SUBMIT COMPLETE BALANCE-OF-PAYMENTS DATA FOR 1973, 1974 AND PROJECTED FOR 1975 FOR HOST COUNTRIES. LIBERIAN BALANCE-OF-TRADE, BALANCE-OF-PAYMENTS, AND FINANCIAL SITUATION AND OUTLOOK ANALYZED IN DEPTH IN MONROVIA A-01 OF JANUARY 6, 1975, PREPARED BY EMBASSY ECONOMIC/COMMERCIAL SECTION. FOLLOWING DATA, COMMENTS AND PROJECTIONS FURNISHED BY SAME SOURCE AS SUPPLEMENT AND FOR PURPOSES COMPLIANCE WITH FORMAT SUGGESTED REF A. HOWEVER, IF THIS

TO BE CONTINUING REPORTING REQUIREMENT FOR LESS-DEVELOPED COUNTRIES, SUGGEST AID/W COMPLY WITH ESTABLISHED PROCEDURES AND HAVE IT INCLUDED IN CERP BY STATE/EB/OCA/REP. THIS WOULD HELP AVOID LAST-MINUTE RUSH AND PERMIT USE OF AIRGRAM FORMAT RATHER THAN TELEGRAM.

2. DATA REQUESTED REF A IS AS FOLLOWS (IN MILLIONS OF U.S.

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DOLLARS):

LIBERIAN BALANCE-OF-PAYMENTS

ACTUAL ESTIMATED PROJECTED

CY 1973 CY 1974 CY 1975

A. EXPORTS (FOB)	324.0	371.0	374.0
(IRON ORE)	(196.7)	(255.0)	(280.0)
(NATURAL RUBBER)	(42.9)	(50.0)	(40.0)
B. IMPORTS (CIF)	193.5	310.0	341.0
(FERTILIZER)	(0.9)	(2.5)	(2.8)
(FUELS & LUBRICANTS)	(14.7)	(55.0)	(60.5)
(RICE)	(12.3)	(10.0)	(11.0)
C. TRADE BALANCE	130.5	61.0	33.0
D. NET SERVICES (N/A)			
E. (I) NET TRANSFERS (NET FACTOR PAYMENTS TO ABROAD)	74.5	80.0	84.0
(II) DIAMOND SMUGGLING (REDUCTION TO CORRECT FOR DIAMONDS ILLICITLY IMPORTED FOR SUBSEQUENT EXPORT)	24.7	16.0	15.0
F. CURRENT BALANCE	31.3	-35.0	-66.0
G. OFFICIAL CAPITAL	19.2	20.0	20.0
(I) FOREIGN AID LOANS	(8.2)	(9.0)	(9.0)
(1) U.S.#	(0.4)		
(2) WEST GERMANY	(7.4)		
(3) IBRD, ADB	(0.4)		
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(4) OPEC	(0.0)	(1.8)	(1.8)
(5) COMMUNIST COUNTRIES	(0.0)		
(6) OTHER BILATERAL DONORS	(0.0)		
(II) FOREIGN AID GRANTS	(11.0)	(11.0)	(11.0)

(1) U.S.# (5.4)

(2) U.N. (2.5)

(3) OTHER BILATERAL (3.1)
DONORS

H. PRIVATE CAPITAL (NO DATA N/A N/A N/A
 AVAILABLE. GOL HAS NO
 CONTROL OVER CAPITAL FLOW
 NOR DOES IT MONITOR SUCH
 TRANSFERS. ESTIMATE INCLUDED
 IN E(I) ABOVE.)

I. OVERALL BALANCE 50.5 -15.0 -46.0

#(MPEA ESTIMATE - NOT IN AGREEMENT WITH USAID FIGURES)

J. FINANCED BY

(I) IMF OIL FACILITY 0.0 0.0 5.0

(II) IMF (OTHER) 1.0 0.0 1.5

(III) SHORT TERM BORROWING 0.0 5.0 20.0

(IV) CHANGE IN RESERVES AND N/A N/A N/A
 ASSETS HELD ABROAD (SEE
 COMMENTS BELOW)

K. DEBT SERVICE 19.9 21.0 22.0

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L. FOREIGN EXCHANGE RESERVES (U.S. DOLLAR IS USED AS DOMESTIC
 CURRENCY IN LIBERIA. MONETARY SYSTEM FUNCTIONS AS WOULD
 GOLD SYSTEM IN COUNTRY PRODUCING NO GOLD. MAJOR FOREIGN
 EXCHANGE RESERVES REPRESENTED BY MONEY IN CIRCULATION, BANK
 DEPOSITS, ASSETS HELD ABROAD BY LIBERIANS. ONLY OFFICIAL
 RESERVES, NEVER LARGE, ARE RESULT OF GOL BUDGET
 SURPLUSES.)

3. DATA FOR CY 1973 SHOWN ABOVE TAKEN FROM PUBLICATION OF MINISTRY
 PLANNING AND ECONOMIC AFFAIRS ENTITLED ECONOMIC SURVEY OF
 LIBERIA - 1973 (CERP PUBLICATION 022) WHICH AVAILABLE TO
 WASHINGTON END USERS. TRADE DATA FOR 1974 ARE EMBASSY
 ESTIMATES BASED ON PERFORMANCE DURING FIRST NINE MONTHS.
 REMAINING DATA/PROJECTIONS BASED ON EMBASSY'S BEST GUESS.
 PROBLEM IS THAT GOL DOES NOT COMPUTE BALANCE-OF-PAYMENTS

DATA. UNTIL MID-YEAR 1974 GOL HAD NO CENTRAL BANKING FACILITY, USING INSTEAD PRIVATELY OWNED BANK OF MONROVIA (SUBSIDIARY OF FIRST NATIONAL CITY BANK OF NEW YORK) TO MAINTAIN CURRENCY AND HANDLE GOL ACCOUNTS. NEW NATIONAL BANK OF LIBERIA PROCEEDING SLOWLY IN ABSORBING THESE FUNCTIONS, BUT HAS NO RIGHT OF ISSUE AND NO POWER TO CONTROL OR MONITOR CAPITAL FLOWS. AS RESULT, NO ACCURATE BOP ESTIMATES POSSIBLE. HOWEVER, AS 100 PERCENT FOREIGN EXCHANGE ECONOMY, BOP SURPLUS IN LIBERIA DIRECTLY INCREASES MONEY SUPPLY AND/OR ASSETS HELD ABROAD BY LIBERIANS. DEFICIT DRAINS LIQUIDITY AND/OR REDUCES FOREIGN ASSETS OF LIBERIANS. DURING LAST HALF OF 1974 THERE WAS DETECTABLE REDUCTION IN INTERNAL LIQUIDITY AND IN KNOWN ASSETS HELD ABROAD BY LIBERIANS. THEREFORE, BOP DEFICIT, BEGINNING ABOUT MID-YEAR, CONSIDERED TO BE A CERTAINTY.

4. IMPROVED EXPORT PERFORMANCE IN 1974 DUE ALMOST ENTIRELY TO HIGHER PRICES AND VOLUME OF IRON ORE EXPORTS, WHICH EXPECTED CONTINUE THROUGH 1975. OTHER EXPORTS HAVE WEAKENED, ESPECIALLY SINCE MID-1974. ONLY SHARP RECOVERY IN WESTERN INDUSTRIALIZED COUNTRIES COULD REVERSE THIS. SEE MONROVIA A-01 OF JANUARY 6, 1975 FOR FULL DISCUSSION.

5. LIBERIA'S IMPORTS ESTIMATED TO HAVE INCREASED BY STAGGERING 60.2 PERCENT IN VALUE IN 1974 WITH LITTLE OR NO CHANGE IN VOLUME. MAJOR FACTOR, ACCOUNTING FOR ONE-THIRD OF RISE, WAS LIMITED OFFICIAL USE

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FUELS AND LUBRICANTS WHICH WERE \$14.7 MILLION IN 1973 AND ESTIMATED AT \$55.0 MILLION IN 1974. COMPARING FIRST SIX MONTHS

NOTE BY OC/T: REFERENCE A NOT SUPPLIED BY ORIGINATOR.

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MONTHS OF 1974 WITH SAME PERIOD 1973, CRUDE PETROLEUM IMPORTS
FELL FIVE PERCENT BY VOLUME (TO 2.3 MILLION BARRELS) WHILE
RISING 266 PERCENT BY VALUE (TO \$28.7 MILLION). ALSO DURING
FIRST SIX MONTHS IMPORTS OF RICE, LIBERIA'S STAPLE, FELL
41 PERCENT BY VOLUME (TO 25.5 MILLION POUNDS) WHILE RISING
6.4 PERCENT BY VALUE (TO \$4.9 MILLION). MACHINERY AND
TRANSPORT EQUIPMENT IMPORTS DURING SAME PERIOD JUMPED 20.4
PERCENT (TO \$35.6 MILLION) BUT SOME INCREASED VOLUME MAY HAVE
BEEN PARTIALLY RESPONSIBLE.

6. GOL DOES NOT COMPILE GROSS NATIONAL PRODUCT ESTIMATES.
INSTEAD, IT ESTIMATES GROSS DOMESTIC PRODUCT AT CURRENT
MARKET PRICES (GDPM), SUBTRACTS NET INDIRECT TAXES (NIT) TO
ARRIVE AG GROSS DOMESTIC PRODUCT AT FACTOR COST (GDPF),
SUBTRACTS CONSUMPTION OF FIXED CAPITAL (CFC) TO OBTAIN NET
DOMESTIC PRODUCT AT FACTOR COST (NDPF), FROM WHICH NET
FACTOR PAYMENTS TO THE REST OF THE WORLD (NFP) ARE SUBTRACTED
TO OBTAIN NET NATIONAL PRODUCT AT FACTOR COST (NNPF) OR
NATIONAL INCOME (NI). THESE FIGURES HAVE BEEN RECENTLY
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REVISED BY THE MINISTRY OF PLANNING AND ECONOMIC AFFAIRS
(MPEA) AND NEW FINAL ESTIMATES FOR 1970-1972 AND PRELIMINARY
ESTIMATES FOR 1973 WERE PUBLISHED IN ITS ECONOMIC SURVEY OF
LIBERIA - 1973 (CERP PUBLICATION 022). USING THIS DATA AS
A BASE, THE EMBASSY HAS ATTEMPTED TO PROJECT FULL 1973,
1974 AND 1975 DATA. FOLLOWING TABLE GIVES BOTH MPEA OFFICIAL
DATA AND (IN BRACKETS) EMBASSY PROJECTIONS:

	1970	1971	1972	1973	1974	1975
GDPM	359.3	382.7	412.9	461.1	(520.0)	(534.0)

LESS NIT	25.4	27.8	30.7	38.8	(44.0)	(48.0)
GDPF	333.9	354.9	382.2	(422.3)	(476.0)	(486.0)
LESS CFC	52.1	56.8	62.2	(76.6)	(76.0)	(78.0)
NDPF	281.8	298.1	320.0	(354.7)	(400.0)	(408.0)
LESSNFP	71.7	72.9	73.8	(74.5)	(80.0)	(84.0)
NNPF OR NI	210.1	225.2	246.2	(280.2)	(320.0)	(324.0)

GROWTH RATE (PERCENT) 7.2 9.3 (13.8) (14.2) (1.3)

RATIONALE FOR EMBASSY ESTIMATES/PROJECTIONS IS AS FOLLOWS:

GDPM- IN RECENT YEARS GROSS DOMESTIC PRODUCT AT CURRENT MARKET PRICES HAS BEEN TOTAL EXPORTS PLUS ABOUT \$136 TO \$140 MILLION DOMESTIC PRODUCTION. HIGH COST OF IMPORTED GOODS HAS INDUCED IMPORT SUBSTITUTION, ESPECIALLY OF RICE. DOMESTIC PRODUCTION FIGURE SHOULD INCREASE BY \$10 TO \$15 MILLION.

NIT - DOMESTIC REVENUES ARE NOW RUNNING AT ABOUT 16 PERCENT OF TOTAL TRADE (I.E., EXPORTS PLUS IMPORTS). NET INTERNAL REVENUE HAS BEEN AVERAGING 41.8 PERCENT OF DOMESTIC REVENUES.

CFC - FIGURES ON CONSUMPTION OF FIXED CAPITAL USED BY GOL LIMITED OFFICIAL USE

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HAVE BEEN RUNNING AT ABOUT 16 PERCENT OF GDPF.

NFP - DUE TO PREPONDERANCE OF EXPATRIATE FIRMS AND INDIVIDUALS IN LIBERIA'S EXPORT AND IMPORT TRADE, NFP TENDS TO BE A FUNCTION OF TOTAL TRADE, THOUGH NOW DECLINING. IN 1970 NFP WAS 18.6 PERCENT OF TRADE, IN 1971 WAS 17.8 PERCENT, 16.5 PERCENT IN 1972. MAY HAVE FALLEN TO 14.4 PERCENT IN 1973, AND QUITE POSSIBLY CONTINUED DECLINING TO 12 PERCENT IN 1974. IN 1975 ESTIMATED AT 11 PERCENT. (NOTE: ESTIMATES USED IN MONROVIA A-01 OF JANUARY 6, 1975 FOR NFP WERE \$74 MILLION FOR 1974 AND \$74 TO \$91 MILLION FOR 1975. HOWEVER, WE UNDERSTAND FIGURES USED ABOVE PROBABLY MORE REALISTIC.)

7. ALTHOUGH NATIONAL INCOME DATA AND PROJECTIONS SHOW SOME GROWTH AT CURRENT MARKET PRICES, THIS HAS BEEN WIPED OUT BY INFLATION. ACCORDING TO MONROVIA CONSUMER PRICE INDEX (1964 EQUALS 100) PRICES REMAINED FAIRLY STEADY IN 1970 (INDEX NO.

126.4) AND 1971 (INDEX 126.1) BEFORE JUMPING TO 134.6 BY END OF 1972 AND 161.4 BY END OF 1973. DURING FIRST EIGHT MONTHS OF 1974, INDEX WAS RISING AT ANNUAL RATE OF AT LEAST 35 PERCENT AND MAY HAVE ENDED YEAR IN 220.0 RANGE. THEREFORE, IN REAL TERMS, LIBERIA'S NATIONAL INCOME DECLINED BY ABOUT 5.1 PERCENT IN 1973 AND 15.4 PERCENT IN 1974. THE SLIDE MAY BE EXPECTED TO CONTINUE IN 1975 SINCE MOST OF LIBERIA'S INFLATION IS EXTERNAL IN ORIGIN. MOREOVER, SINCE THE POPULATION IS INCREASING AT AN ANNUAL RATE OF ABOUT 3.2 PERCENT, REAL NATIONAL INCOME PER CAPITA IS FALLING EVEN FASTER. SINCE ONE-THIRD OF LIBERIA'S INCREASED IMPORT COSTS IN 1974 WERE DIRECTLY ATTRIBUTABLE TO HIGHER PETROLEUM PRICES AND MUCH OF REMAINDER CAUSED BY ENERGY PRICE INDUCED INCREASES FOR OTHER PRODUCTS, IT APPEARS SAFE TO SAY THAT ENERGY CRISIS AT ROOT OF AT LEAST HALF OF PROBLEM.

8. ABOUT 58 PERCENT OF LIBERIA'S TOTAL IMPORTS IN 1973 WERE NON-DUTIABLE. IN OTHER WORDS, THEY WERE DESTINED FOR MINING, RUBBER, TIMBER AND OTHER (USUALLY FOREIGN-OWNED) CONCESSIONS OR FOR GOL OR INTERNATIONAL OFFICIAL COMMUNITY. IT BELIEVED THAT DEMANDS FOR THESE GOODS RELATIVELY PRICE INELASTIC. REMAINING 42 PERCENT OF IMPORTS WERE DUTIABLE AND IMPORTED FOR GENERAL USE. IMPORT DEMAND HERE EXPECTED TO FALL AS INCREASING NUMBERS OF PEOPLE ONLY marginally IN MONEY ECONOMY ARE FORCED LIMITED OFFICIAL USE

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OUT BY CRISIS AND THOSE FULLY IN MONEY ECONOMY REDUCE PURCHASES BECAUSE OF RELATIVELY STABLE INCOMES IN FACE OF SOARING PRICES. NO OFFICIAL IMPORT OR EXPORT CONTROLS/PROGRAMS EXPECTED IN NEAR TERM.

9. OVER LONGER TERM, PRESENT CRISIS EXPECTED CREATE SEVERE PROBLEMS FOR LIBERIAN ECONOMY. BALANCE-OF-PAYMENTS DEFICIT COULD RESULT IN SHORTAGE INTERNAL LIQUIDITY WITH RESULTANT BRAKING EFFECT ON DOMESTIC ECONOMIC ACTIVITY OR COULD LEAD GOL TO INCREASE SHORT-TERM BORROWING WITH ADVERSE EFFECTS FOR DEBT SERVICE BURDEN. MORE COMPLETE DISCUSSION OF POSSIBILITIES CONTAINED MONROVIA A-01 OF JANUARY 6, 1975.

10. GOL HAS RECEIVED \$1.8 MILLION LOW-INTEREST LOAN FROM ARABA-AFRICAN LOAN FACILITY IN 1974 AND EXPECTS ANOTHER \$1.8 MILLION. GOL ALSO DISCUSSING POSSIBLITY SUBSTANTIAL ARAB PRIVATE LOANS TO ASSIT IN DEVELOPING SEMI-OFFICAL CORPORATE AGRICULTURAL PLANTATIONS. FIGURE OF \$100.0 MILLION AT COMMERCIAL RATES AND TERMS HAS BEEN MENTIONED. NO OTHER OPEC FINANCIAL PROJECTS KNOWN BE UNDERWAY. MANFULL

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